

VZCZCXYZ0008
PP RUEHWEB

DE RUEHBU #0708/01 1442006
ZNR UUUUU ZZH
P 232006Z MAY 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC PRIORITY 1136
INFO RUEHLP/AMEMBASSY LA PAZ MAY QUITO 1088

UNCLAS BUENOS AIRES 000708

SENSITIVE
SIPDIS

FOR SENATOR CHRISTOPHER DODD FROM AMBASSADOR E. ANTHONY
WAYNE
DEPARTMENT FOR H AND RM/F/DFS/FO/AA/CAA

E.O. 12958: N/A
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SUBJECT: ARGENTINA: SCENESETTER FOR CODEL DODD (BUENOS
AIRES, MAY 28-30)

¶1. (U) This telegram is sensitive but unclassified, and not
for Internet distribution.

Introduction

¶2. (SBU) On behalf of Embassy Buenos Aires, I warmly welcome
your May 28-30 visit to Argentina. We are looking to build
on an already positive bilateral relationship with the
six-month-old administration of President Cristina Fernandez
de Kirchner (CFK). However, the CFK administration is in the
midst of a serious domestic crisis with the agricultural
sector and its popularity has fallen sharply. This follows
another seven-week crisis over a Miami court case (see
paragraph 4), which we successfully overcame.

¶3. (SBU) Our overall priority objective in Argentina is to
keep chipping away at the very high levels of
anti-Americanism of Argentines by reaching out to Argentine
society as well as the government, with a special focus on
youth. Other significant areas of mutual interest and
cooperation include education and cultural exchanges, science
and technology, counter-terrorism, non-proliferation,
counter-narcotics, international crime, and regional
stability and, of course, promoting economic and commercial
interests. We have also worked hard to strengthen
Argentina's judicial and law enforcement systems. During
this visit, you will meet with the President, the Minister of
Foreign Affairs, the Minister of Planning and his Secretary
of Energy, and with the Minister of Economy. The President
told me May 21 that she will want to talk to you about the
U.S. presidential campaign, and remembers positively meeting
you during her visit to the Boston Democratic Party
convention in 2004. You will also be the guest of honor at a
lunch to discuss regional issues, and possibly at a coffee
with prominent members of Argentine civil society. We are
looking forward to meeting with you and to discussing
Argentina-specific and regional issues and priorities. End
Introduction.

A Recent Bilateral Low Point

¶4. (SBU) In December, two days after Cristina Fernandez de
Kirchner's (CFK) inauguration, the GoA misinterpreted and
over-reacted to news reports concerning a federal case in
Miami against some Venezuelans and an Uruguayan who were
arrested on charges of operating and conspiring to operate in
the United States as agents of the Venezuelan government
without notifying the Attorney General as required by law.
During the proceedings in Miami, allegations surfaced that
undeclared cash brought into Buenos Aires in August 2007 from

Venezuela had been destined for a presidential campaign. The statements were not made by the USG, but rather by one of those arrested. They were misinterpreted here as reflecting the USG's views because of initial presentation and reporting out of Miami.

15. (SBU) CFK reacted angrily to the implication that she had been the intended recipient of the cash that was intercepted by GoA officials. She publicly interpreted the Miami arrests as directed against her government and characterized the case as a "garbage operation." Her ministers and the Argentine Congress made similar statements. However, the rhetoric gradually subsided as key members of the team slowly absorbed our explanation and concluded it was not in their interest to be cut off from the USG. (The GoA has an ongoing investigation and an extradition request for Antonini Wilson over the \$800,000 in cash discovered here.) We normalized the relationship with a great deal of behind-the-scenes work. A new beginning occurred on January 31, when I met with CFK. We agreed at that meeting to put the case aside and to work to strengthen bilateral cooperation. Since that time, there have been several important visits by U.S. officials to Buenos Aires, most notably separate Congressional delegations led by Representative Eliot Engel (February 20-23) and Senator Richard Shelby (March 23-26); the April 10-11 visit by WHA Assistant Secretary Shannon; the May 6-7 visit by Southcom Commander Admiral Stavridis; and the May 21-22 visit by FBI Deputy Director John Pistole. CFK met with Engel, Shannon, and Pistole.

A Government Against the Ropes

16. (SBU) The GoA unexpectedly issued March 11 a decree that increased export taxes on Argentina's main agricultural export crops. That precipitated the worst political crisis of either Kirchner administration since 2003. Argentina's four principal agricultural organizations showed rare unity in organizing production stoppages and blockades of Argentina's transport infrastructure for twenty days, leading to nationwide shortages of such staples as beef, chicken, dairy products, and vegetables. There were massive protests in support of the strike in the countryside and in Buenos Aires. The GoA-organized counter-protests in Buenos Aires, including one attended by an estimated 100,000 individuals. On April 2, agricultural producers decided to lift the strike for thirty days and hold discussions with the GoA. The parties continued to negotiate but made little progress on the main issue of export taxes.

17. (SBU) On May 7, the farm groups decided to resume their protests, this time without major roadblocks and with promises not to provoke shortages of foodstuff. The latest strike focused on blocking sales and exports of grains and oilseeds, and was considered by analysts as successful in its aims. The farm groups once again suspended the strike on May 21 to resume negotiations with the GOA. However, the first meeting following the suspension of the strike ended abruptly May 22, and further talks have been put off until after the May 25 national holiday. On that holiday, which celebrates Argentina's independence, farm groups plan a huge rally in the city of Rosario, one of Argentina's principal urban centers and an agricultural stronghold. The GoA's public stance is that the current truce and ongoing negotiations are a victory for the government, and validates CFK's hard-line posture toward the farm groups. Most analysts, however, consider the entire dispute to be a setback for the government, with the vital agricultural sector more united than at any time in a century. During this period, the popularity of the government and the President has continued to drop, with some polls showing her at 26-27 percent. That drop has been fueled not just by the agricultural problems but also by soaring inflation/prices.

18. (SBU) We provide the preceding information to you for context as you embark on your bilateral discussions.

Background: Political Landscape

¶9. (SBU) CFK took office on December 10, 2007, receiving the presidential sash from her husband, Nestor Kirchner. He completed his four-and-a-half-year term as the most popular Argentine President since the return to democracy in 1983. CFK has a long history in politics, having served in the Chamber of Deputies and most recently in the Senate. She won the October 28 election with 45% of the vote over a divided and largely ineffective opposition, and she enjoys a strong majority in both houses of Congress. Having campaigned on the seemingly contradictory themes of change and continuity, she has retained most of her husband's cabinet. Apart from the agricultural dispute, CFK's major policy challenges will be to contain inflation, attract and boost investment -- particularly in Argentina's energy sector -- and to restore a sense of law and order to an electorate increasingly concerned about crime and security. In spite of her pique over the Antonini Wilson case, CFK has also made clear that she would like to improve relations with the United States and sees the benefit for Argentina of good ties, especially in the economy and higher education.

Background: Economic and Commercial Landscape

¶10. (U) Following the 2001-2002 economic crisis, 2003-2006 real GDP growth averaged over 8%, and Argentina's GDP in 2007 grew at an estimated rate of 8.5% to \$255 billion, roughly \$6,500 per capita. This impressive economic recovery has also led to improvements in key socio-economic indicators, with unemployment down from a peak of over 20% in 2002 to 8.8% during the third quarter of 2007 and poverty levels down from a post-crisis high of over 50% to a (still-worrisome) 25% range. The five-year-long economic recovery can be attributed to a number of factors, including a post-crisis move to a flexible exchange rate regime, sustained global and

regional growth during this period, the government's efforts to boost domestic aggregate demand via monetary, fiscal, and income distribution policies, and favorable international commodity price trends.

¶11. (SBU) While the accumulation of a substantial foreign exchange reserve cushion (over \$50 billion as of May 2008) and expanded tax collections have helped insulate Argentina's economy from external shocks, the Central Bank's policy of maintaining an undervalued exchange rate and negative real interest rates has contributed to substantial inflationary pressures. Private sector analysts estimate that 2007 inflation was in the 17-20% range, while the government's official 2007 inflation number was 8.5%. Inflation levels in the first four months of 2008 are estimated by independent economists in the 25% range but are reported as much lower by the government. There is ongoing public debate about inflation measures.

¶12. (SBU) To help control inflation, the government largely froze key public utility tariff rates since 2002 and, since 2005, has negotiated price stabilization agreements on a sizable basket of essential consumer goods. The combination of Argentina's undervalued currency and high global commodity prices have lifted Argentine exports to a record \$55.4 billion in 2007. Major 2007 Argentine export markets were Mercosur (22%), the EU (18%) and NAFTA (11%). Argentine 2007 imports totaled \$44.8 billion, with the major suppliers Mercosur (36%), the EU (17%) and NAFTA (16%). Total U.S.-Argentina two-way trade in 2007 totaled \$9.5 billion. Imports from the U.S. largely comprise intermediate capital goods which have contributed to improvements in domestic productive capacity.

¶13. (U) Over 500 U.S. companies are currently operating in Argentina and employ over 150,000 Argentine workers. U.S.

investment in Argentina is widely diversified, but heavy investment is found in the manufacturing, information, and financial sectors. Other major sources of investment include Spain, Chile, Italy, France, Canada, Japan, and Brazil. A range of economic experts have identified challenges to sustaining high levels of economic growth in the future, including: capacity constraints; the need for substantial new investment in primary infrastructure; potential energy shortages in the face of high growth and domestic energy prices kept below international market levels; increasing scarcity of highly skilled labor; inflation and the government's heterodox policies to contain it, including price controls. Continuing Argentine arrears to international creditors (including over \$20 billion in default claims by international bondholders, including U.S. citizens, and over \$7 billion owed to official creditors, approximately \$360 million of which is owed to the U.S. government) and a large number of arbitration claims filed by foreign companies, including U.S. companies, are legacies of the 2001/2002 economic crisis that remain to be resolved and adversely affect Argentina's investment climate.

What We're Doing on Issues of Interest

¶9. (SBU) The greatest overall challenge we face in Argentina is the high level of anti-Americanism in the Argentine public. Argentina consistently registers the highest levels of anti-Americanism in the hemisphere in public opinion polls. Working to change these perceptions is the Embassy's highest priority. Argentina maintains positive political relations with the United States, but there is room for further improvement. One of the major tasks facing the Embassy is forging relationships of trust with a government that has been largely inward-focused and intent on maintaining an image as independent from our country. In lobbying the GOA, it can be counter-productive to push an issue too aggressively and especially in public. Argentine officials react very negatively to perceived affronts to their sovereignty, often winning public support for their strong reactions. Shut off from other sources of international financing, the GOA has turned to Hugo Chavez to place large bond issues.

¶10. (SBU) Argentina, nevertheless, holds Major Non-NATO Ally status and cooperates in regional security, counter-terrorism, drug interdiction, nonproliferation and in contributing troops to U.N. peacekeeping missions. The GoA has been a strong international voice on arms control and

nonproliferation issues. In the IAEA, the GoA has voted to refer Iran's noncompliance to the UNSC. The GoA has also endorsed the Proliferation Security Initiative (PSI) and the Global Threat Reduction Initiative (GTRI). Just this month, Argentina and the U.S. co-hosted in Buenos Aires a gathering of all OAS States to look for ways to better implement UN resolution 1540, which is aimed at keeping WMD from terrorists. It is under the banner of science that the USG and Argentina have realized some of the best examples of bilateral cooperation, and we have a long history of aerospace cooperation with Argentina.

Promoting U.S. Economic/Commercial Interests

¶11. (SBU) In support of U.S. companies operating in Argentina, we are encouraging the GoA to support a more welcoming investment climate, with greater regulatory, legal, and tax regime consistency. We expend a good deal of effort supporting and working with U.S. companies. We are working closely with the GoA and the Paris Club of sovereign creditors to resolve longstanding arrears to the USG and are encouraging the GoA to resolve claims of U.S. holders of defaulted Argentine bonds. Regarding ongoing WTO trade negotiations, Argentina has staked out a hard-line position that links acceptance of developed economy agricultural sector proposals with more developing nation flexibility on

industrial tariff cuts. We have been urging them to adopt a more constructive approach.

Trafficking in Persons (TIP)

¶12. (SBU) Argentina is on the USG's Tier-2 Watchlist for lack of progress in providing greater assistance to victims and curbing official complicity in trafficking at the provincial level. However, the legislature recently passed fairly comprehensive anti-TIP legislation that makes TIP-related violations a federal crime. Argentina is a source, transit, and destination country for men, women, and children trafficked for the purposes of commercial sexual exploitation and forced labor. According to the International Organization for Migration, 80 percent of trafficking victims in Argentina are Argentine, most of whom are trafficked for the purpose of sexual exploitation. Bolivians and Peruvians are trafficked into the country for forced labor in sweatshops and agriculture. Argentine efforts to combat trafficking have focused on prevention and training of security and government officials. One of our key goals this year is to support a vigorous GoA implementation of the new federal law and promote the prosecution of human traffickers. However, a number of NGOs have criticized this new law as weak on the issue of adult "consent."

Democracy and Rule of Law

¶13. (SBU) We work with the GoA, media, and civil society to strengthen democratic institutions, fight corruption, and reinforce civilian control of the military. We promote key reform efforts such as ending the election of representatives by party slate lists, increasing governmental transparency, and limiting public corruption and strengthening the political independence of the judicial branch. While we do not succeed on every issue, we continue to cultivate the GoA as a cooperative partner in multilateral fora, and seek Argentina's cooperation in the defense of democracy and the observance of human rights in countries like Cuba, Venezuela, and Bolivia, as well as UN peacekeeping in Haiti.

Human Rights

¶14. (SBU) The Government of Argentina generally respects the human rights and fundamental freedoms of its citizens. The Kirchner government's human rights policy focuses on seeking justice for the human rights violations committed during the 1976-83 military dictatorship, which resulted in the disappearance of between 11,000-30,000 leftist guerrillas and political dissidents. It does not, however, focus on bringing to justice armed guerrilla groups who also committed human rights abuses during the same period (known as "the Dirty War"), albeit on a much smaller scale. To date, the courts have convicted three former officials of the military regime, including a military chaplain. We recently returned one person sought here for human rights violations and

another individual wanted by the GoA remains in Florida. Argentines are also concerned about one particular citizen on death row in Texas. CFK has been preoccupied with the fate of Colombian hostage Ingrid Betancourt, lobbying Uribe and others to work for her release. Argentina is a strong international advocate for human rights and the USG and GOA generally cooperate on human rights issues in international and regional fora.

International Crime and Drugs

¶15. (SBU) Argentina is a transshipment and destination point for narcotics emanating largely from Colombia, Peru, Bolivia, and Paraguay. With its large chemical and pharmaceutical industries, Argentina is also a major source and destination for precursor chemicals. Argentine law enforcement agencies cooperate closely with their USG counterparts on drug

interdiction efforts, fugitive arrests, and information sharing, which has resulted in increased enforcement. This Mission is focused on institutional capacity-building and expanding training opportunities for law enforcement officials, prosecutors and judges in order to improve internal security and decrease international drug and criminal activity in Argentina. Justice Minister Fernandez has repeatedly stated that he wants to put top priority on attacking drug traffickers and less priority on arresting individual users. The Supreme Court President is working hard to increase judicial independence and efficiency.

Terrorism

¶16. (SBU) Former President Nestor Kirchner's administration strongly supported counter-terrorism policies during his time in office, and his wife and successor CFK has continued the cooperation. Argentina was itself a victim of international terrorist attacks in the 1990s and has been a cooperative partner in countering terrorism, especially in the Tri-border Area. On November 7, 2007, Argentina succeeded in getting Interpol's General Assembly vote to issue international capture notices for five current and former Iranian officials and one Lebanese Hizballah member (who was reportedly killed in Syria February 13) wanted in connection with the 1994 terrorist bombing of the Buenos Aires Jewish Community Center (AMIA). On May 22, a local prosecutor announced charges against former President Menem and other former officials for mishandling the AMIA investigation in the 1990s.

¶17. (SBU) Argentina cooperates with the United Nations, the OAS, its neighbors, and the United States on a number of counterterrorism initiatives. We assist the GoA in capacity-building, within the restraints created by Brooke Amendment sanctions, to strengthen Argentine law enforcement forces. We also work closely with the Argentine military on modernization, increasing interoperability, and training and education focused on civilian control, respect for human rights, defense resource management, strategic planning, and science and technology. Argentina has a leading role in the OAS Inter-American Committee Against Terrorism (CICTE), established on Argentina's initiative in the 1990s. Argentina has ratified all of the 12 international counter-terrorism conventions and has been an active participant in the 3 plus 1 tri-border area counterterrorism mechanism, which met most recently in Asuncion, Paraguay in January. The GOA and the USG have a Mutual Legal Assistance Treaty that entered into force in 1993, and an extradition treaty that entered into force in 2000.

Money Laundering, Terrorism Finance, Legal Reform

¶18. (SBU) The Embassy and USG agencies worked with the GoA to pass comprehensive antiterrorism, money laundering, and terrorism finance legislation to strengthen local enforcement efforts. Since 2005, and largely in response to pressure from the Financial Action Task Force (FATF), the GoA and Argentine Central Bank have acted to fortify the anti-money laundering and counter-terrorism finance legal and regulatory regime, passing new legislation, amending existing laws, and establishing stricter financial sector regulations. The result is that Argentina currently has an adequate legal/regulatory structure that provides the legal foundation for the Central Bank and other law enforcement and regulatory bodies to investigate and prosecute money laundering and terrorism finance. The challenge now is for Argentine law

enforcement and regulatory agencies and institutions to enforce aggressively the newly strengthened and expanded legal, regulatory, and administrative measures available to them to combat financial crimes.

¶19. (U) Argentina is not an important regional financial center or offshore financial center. Money laundering related to narcotics trafficking, corruption, contraband, and tax evasion is believed to occur throughout the financial

system, in spite of the GoA's efforts to stop it. Tax evasion is the predicate crime in most Argentine money laundering investigations. Argentina has a long history of capital flight and tax evasion, and Argentines hold billions of dollars offshore, much of it legitimately earned money that was never taxed. The large informal sector in Argentina (as well as in most other Latin American countries) exposes it to financial crimes.

¶20. (U) In 2007, the Argentine Congress passed legislation to criminalize acts of terrorism and terrorist financing, and establish terrorist financing as a predicate offense for money laundering. The law, which amends the Penal Code and Argentina's 2000 anti-money laundering law, entered into force in mid-July 2007. It effectively removed Argentina from FATF's follow-up process, which began in 2004 to address deficiencies in the GoA's anti-money laundering and counter-terrorist financing (AML/CTF) regime. With the passage of this law, Argentina joined Chile, Colombia, and Uruguay as the only countries in South America to have criminalized terrorist financing.

¶21. (U) On September 11, 2007, President Nestor Kirchner signed into force the National Anti-Money Laundering and Counter-Terrorism Finance Agenda. The overall goal of the National Agenda is to provide a roadmap for fine-tuning and implementing existing money laundering and terrorist financing laws and regulations. The Agenda's 20 individual objectives focus on closing legal and regulatory loopholes and improving interagency cooperation.

¶22. (U) The U.S. Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE) and the GoA have established a Trade Transparency Unit (TTU) in Argentina. The TTU examines anomalies in trade data that could be indicative of customs fraud and international trade-based money laundering, and maintains a key focus on financial crimes occurring in the tri-border Area. The creation of the TTU was a positive step towards complying with FATF Special Recommendation VI on terrorist financing via alternative remittance systems.

¶23. (SBU) Even with the improved AML/CTF legal/regulatory regime, the GoA is more limited than the U.S. in its ability to combat financial crimes. The root of the problem is the relatively overburdened and inefficient judicial system, which is an inquisitorial as opposed to an accusatorial system (such as the United States has). Judges have the lead on all investigations. The system is backed up, slow, and prone to subornment. The result is that the GoA has successfully concluded only two money laundering convictions since money laundering was first criminalized in 1989, and none since the passage of the GoA's 2000 anti-money laundering law. Former Justice Minister Alberto Iribarne, who left office with the change of government in December 2007, proposed sweeping reforms to create a more effective and fair criminal justice system (one closer in design to the U.S. system of justice). However, implementing such reforms would be a difficult and lengthy process. Justice Minister Anibal Fernandez told us May 21 he supports moving ahead with judicial reform.

WAYNE